TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 1480 - SB 2366

February 15, 2016

SUMMARY OF BILL: Exempts a taxpayer from all franchise and excise (F&E) tax liability in the taxpayer's first tax year of existence, if the taxpayer employs no more than 25 employees and has no more than $1,500,000 in gross receipts in its first tax year.

Exempts a taxpayer from 50 percent of its combined F&E tax liability in the taxpayer's second tax year of existence, if the taxpayer employs no more than 25 employees throughout its first 2 tax years, and has no more than $1,500,000 in gross receipts in either of its first 2 tax years.

Exempts a taxpayer from 50 percent of its combined F&E tax liability in the taxpayer's first tax year of existence, if the taxpayer employs no more than 50 employees and has no more than $2,500,000 in gross receipts in its first tax year.

Establishes an effective date for the bill of July 1, 2016, and repeals the proposed F&E tax exemptions on July 1, 2021.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – $388,000/FY17-18
$630,400/FY18-19
$668,200/FY19-20
$668,200/FY20-21
$323,300/FY21-22
$50,300/FY22-23

Assumptions:

- The proposed exemptions apply to tax years beginning on or after July 1, 2016. The first F&E tax returns affected would be due on October 15, 2017. As a result, FY17-18 will be the first fiscal year impacted by the proposed legislation.
- The proposed exemptions are repealed on July 1, 2021. It is assumed that only taxpayers with a tax year that ends prior to such date would be eligible for the exemption. It is further assumed that a taxpayer whose tax year ends prior to such date will be eligible for the tax exemption in the amount of 50 percent of its tax liability in its second tax year, if the taxpayer meets all established requirements.
- For such taxpayers, the first tax year return would be due on October 15, 2021, and the second tax year return would be due on October 15, 2022. As a result, FY22-23 will be the last fiscal year impacted by the proposed legislation.

- Based on information provided by the Department of Revenue, it is estimated that approximately 1,500 new businesses employ no more than 25 employees and have no more than $1,500,000 in gross receipts in their first year.
- These businesses, pursuant to this bill, will be exempt from all F&E tax liability in their first tax year and from 50 percent of their F&E tax liability in their second year.
- The decrease in F&E tax collections for these taxpayers in their first tax year is estimated to be $219,075 in FY17-18, $292,100 in FY18-19, FY19-20, and FY20-21, and $97,367 in FY21-22.
- It is assumed that 70 percent of these businesses will not employ more than 25 employees and have no more than $1,500,000 in gross receipts in their second year.
- The resulting decrease in F&E tax collections for these taxpayers in their second tax year is estimated to be $113,138 in FY18-19, $150,850 in FY19-20, FY20-21, and FY21-22, and $50,283 in FY22-23.
- Based on information provided by the Department, it is estimated that approximately 200 new businesses employ more than 25 employees but no more than 50 employees and have more than $1,500,000 but no more than $2,500,000 in gross receipts in their first year.
- These businesses, pursuant to this bill, will be exempt from 50 percent of their F&E tax liability in their first year.
- The decrease in F&E tax collections for these taxpayers in their first tax year is estimated to be $168,900 in FY17-18, $225,200 in FY18-19, FY19-20, and FY20-21, and $75,067 in FY21-22.
- The total decrease in state F&E tax revenue is estimated to be: $387,975 in FY17-18 ($219,075 + $168,900); $630,438 in FY18-19 ($292,100 + $113,138 + $225,200); $668,150 in FY19-20 and FY20-21 ($292,100 + $150,850 + $225,200); $323,284 in FY21-22 ($97,367 + $150,850 + $75,067); and $50,283 in FY22-23.
- Any increase in state expenditures for the Department to accomplish the requirements of the proposed legislation will not be significant and can be accommodated within existing resources of the Department without an increased appropriation or a reduced reversion.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

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